

Candlesticks

What is a candlestick?

Candles VS Lines

Timeframes

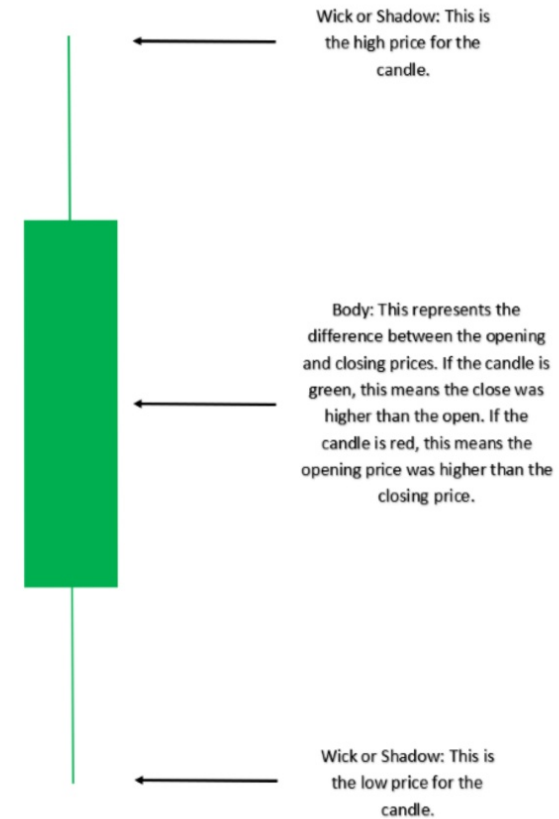
The Anatomy

Candle Chart Examples

Candlestick Analysis

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- A candle is a vertical coloured bar that simply indicates Price during that time interval.
- Candlesticks are essentially a fight between Buyers (Bulls) and Sellers (Bears) over a selected period of time.
- Each candle has an opening and closing price.
- A candle is made up by the "Body" and its "Wicks". The Wick indicates lowest and highest prices the asset reached during that interval of time.
- The body shows the the prices the asset opened and closed during that same interval of time.



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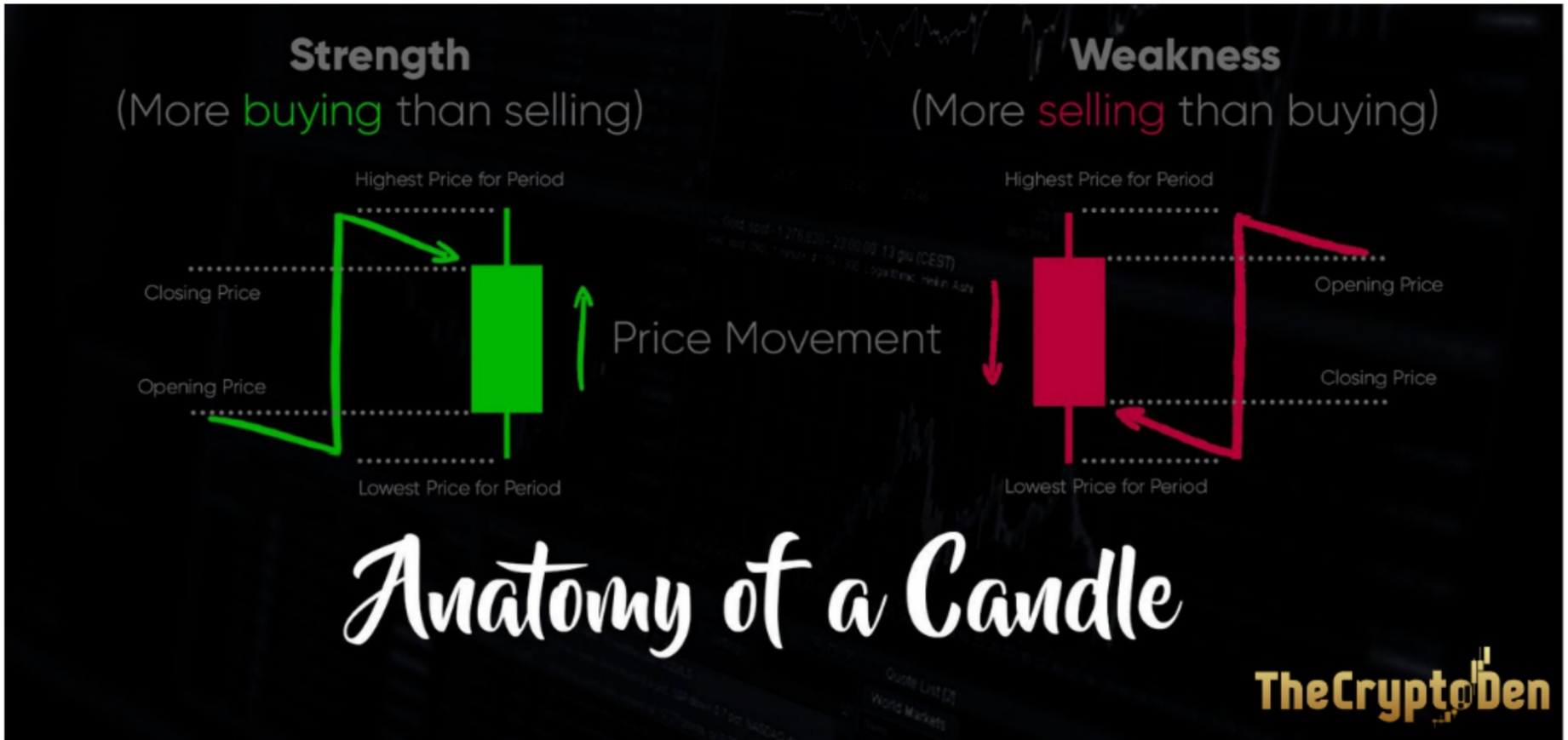
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Line Chart

Why not use a line chart?

Candle Chart

Why Not Use the Line Chart?

The line chart is the most basic and simplest chart available when reviewing the history of an asset. It displays a series of closing prices and connects them by a line that can be viewed by day, week, month, or year.

While this chart is simple and shows prices and patterns over time, the information it gives is quite limited. That is why most professional brokers and experienced traders will use candlestick charts instead of line charts.



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Line Chart

Why not use a line chart?

Candle Chart

The candlestick chart is the same as the line chart but includes much more detailed information on the pricing of the asset.

For example

We can tell that in late November 2019, the price plummeted down from \$56.21 to \$47.03 but we want to know how it happened– which this chart does not tell us.



If we look at the same company with a candlestick chart, we can gain more valuable insight on what happened. For each day, we can determine the open price, close price, high price, and low price. In this example we see a large gap which happens over weekends due to markets closing. This gap causes a significant drop in price followed by "Bearish price action. The line chart wont show these gaps

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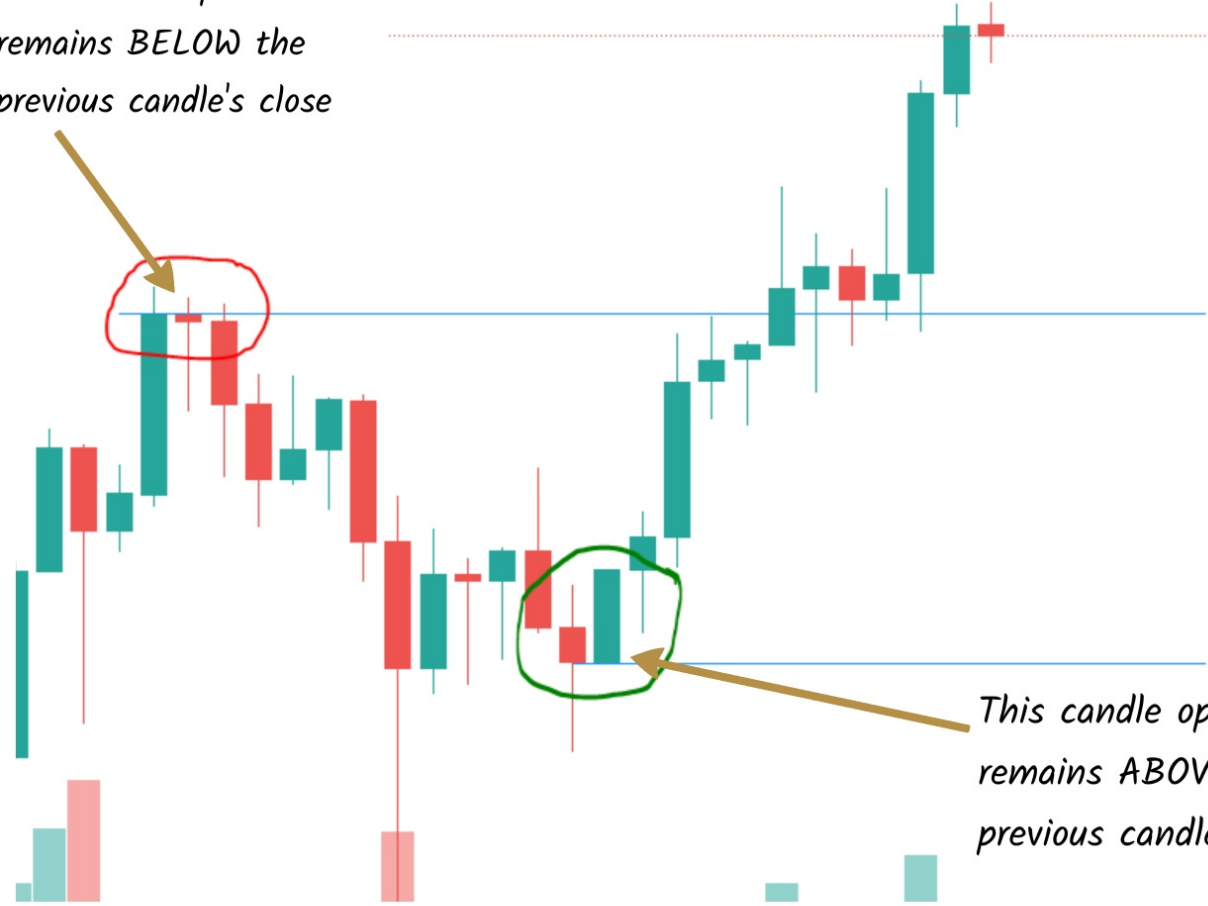


Candle Examples

Example One

Example Two

New candle opens and remains BELOW the previous candle's close



This candle opens and remains ABOVE the previous candle's close

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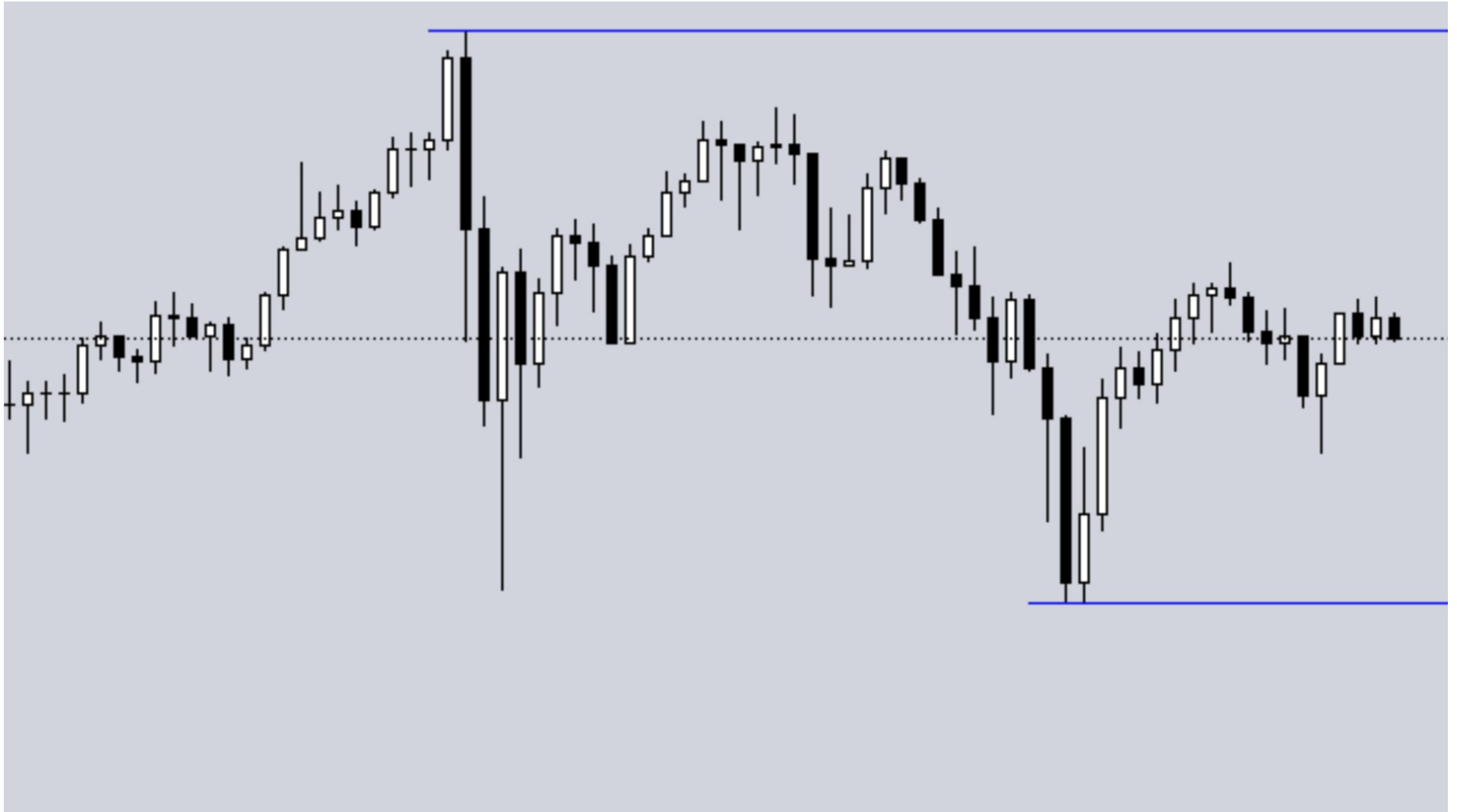
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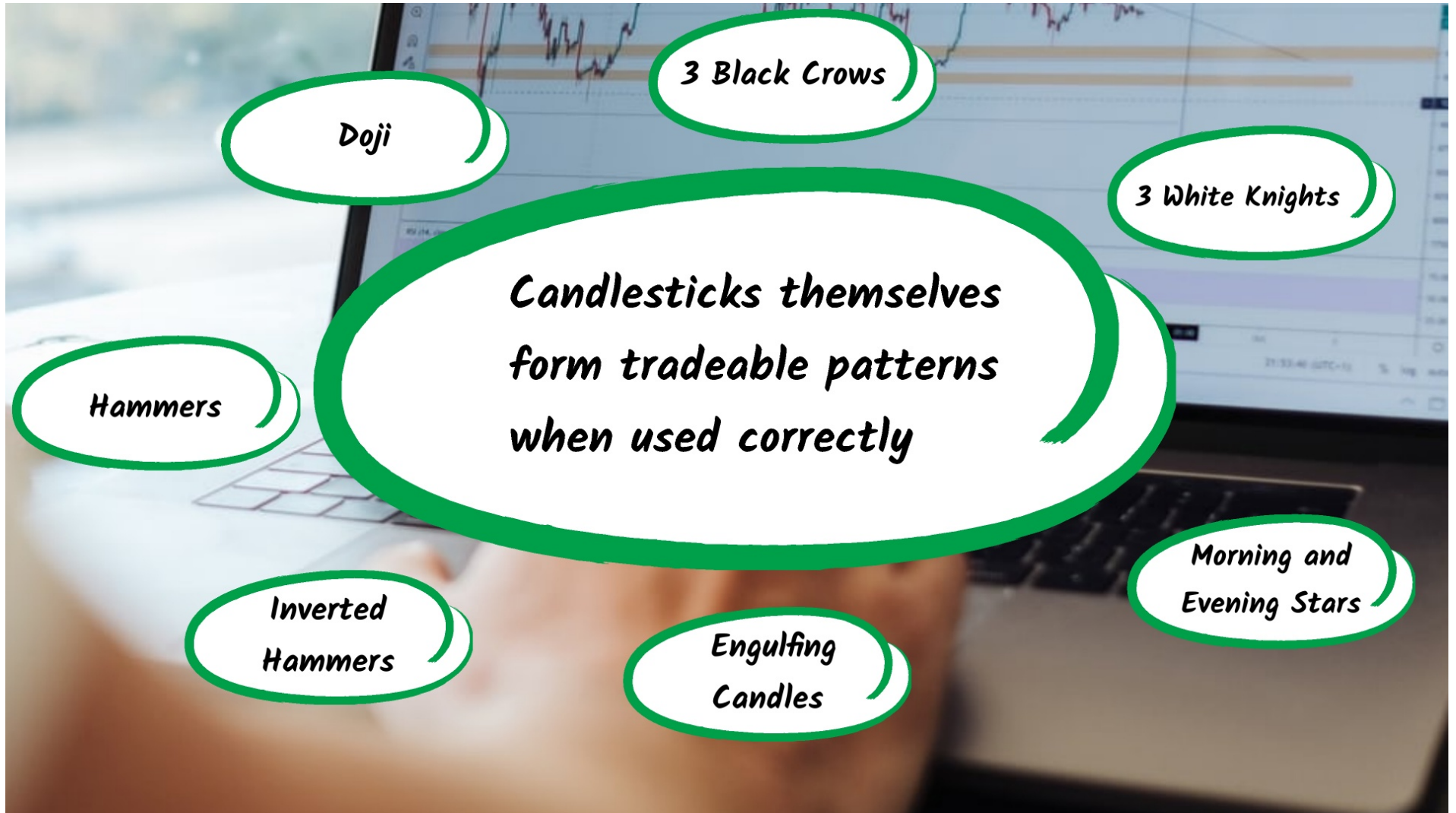
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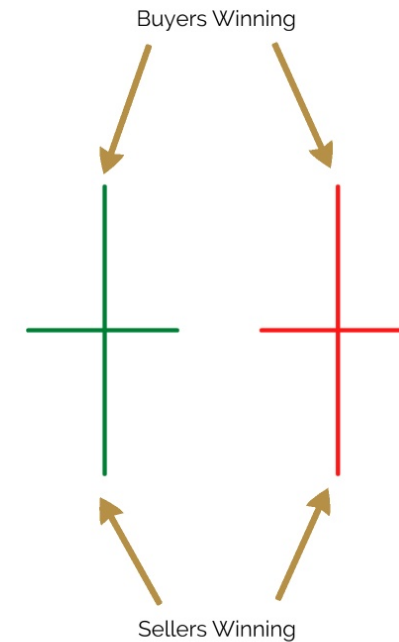
Doji candles

Doji candles are formed generally when a candle's open and close price are virtually the same price.

Doji's indicate the market has reached a point of indecision between the bulls and the bears.

They can often be a sign that whichever move comes next could be a bigger move in price action than what's considered normal and quite often an early reversal indication.

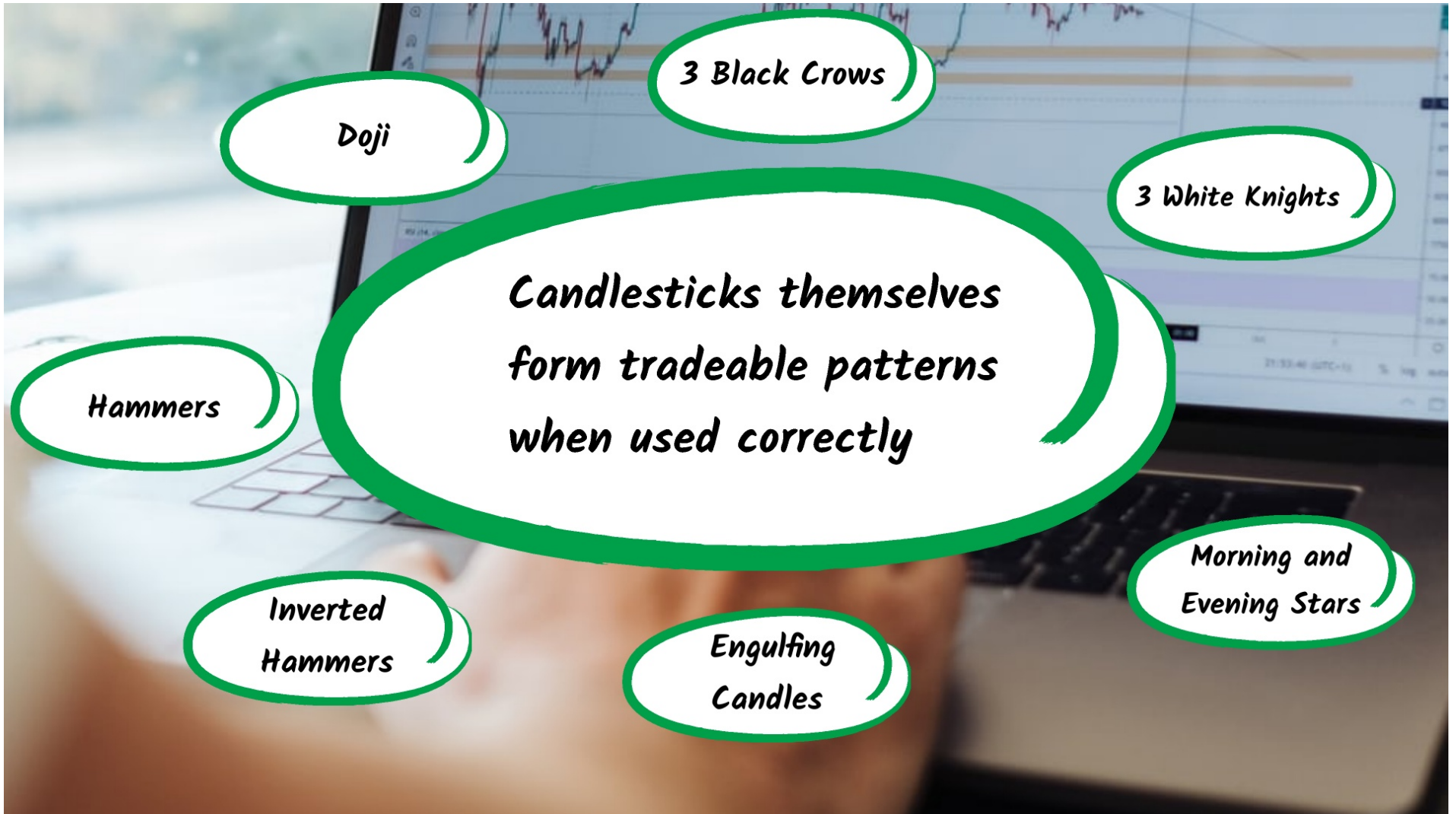
If using them with other candle stick patterns, you might be able to learn more about how the price is going to move. Two of the patterns are the **morning star** and the **evening star**.



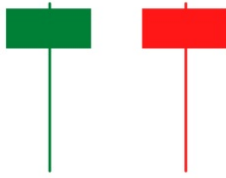
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Hammers



Green Hammer

If the Hammer is green, it is considered a stronger formation than a red hammer because the bulls were able to reject the bears completely. Also, the bulls were able to push up the price past the opening price.

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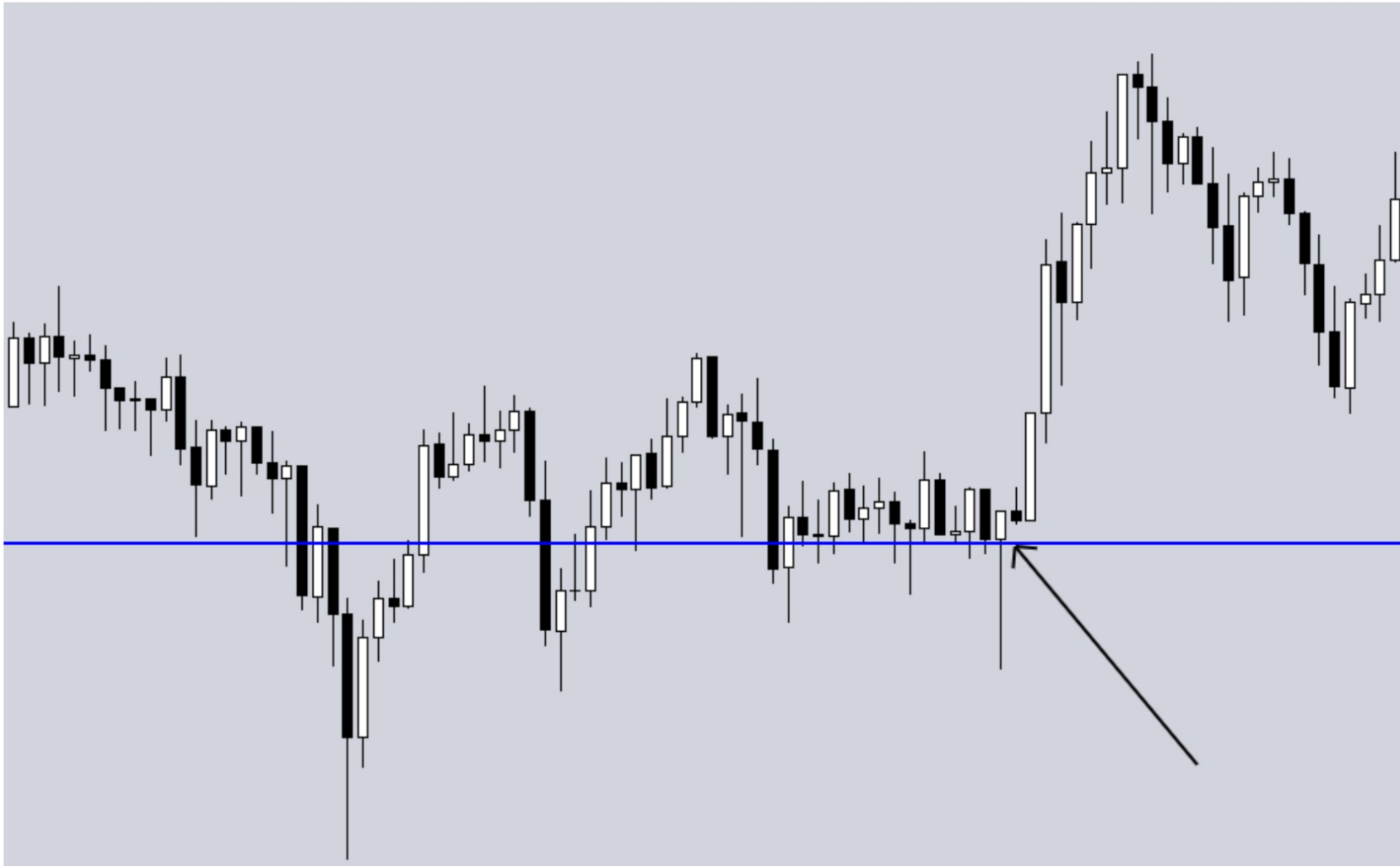
Can a Red Hammer be Bullish?

A red Hammer candlestick pattern is still a bullish sign. The bulls were still able to counteract the bears, but they were just not able to bring the price back up to the opening price. However if at the top of an uptrend this can be a bearish candle known as the hanging man.

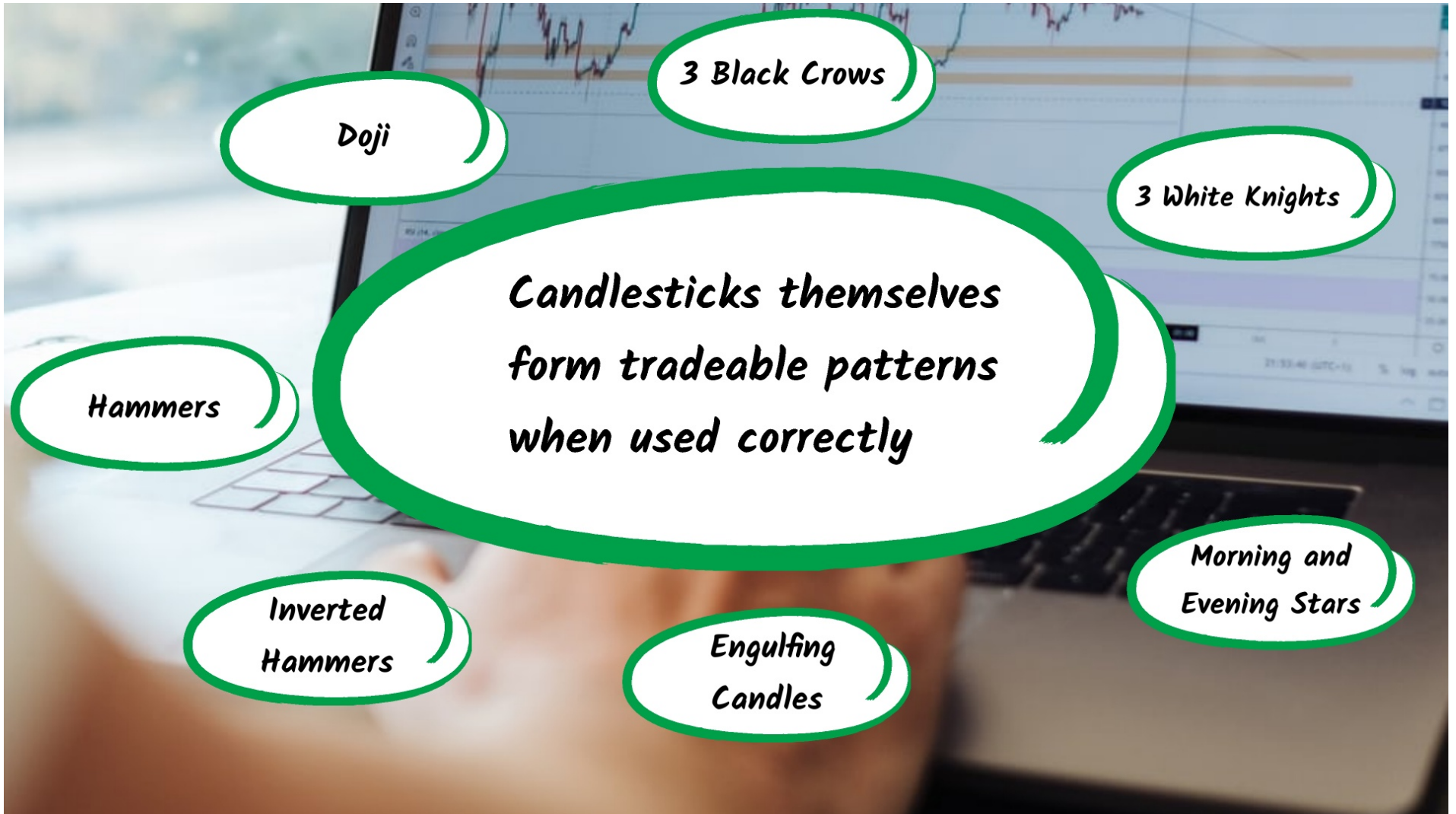
Long Wick

The long lower wick of the Hammer implies that the market tested to find where support and demand were located. When the market found the area of support, bulls began to push prices higher, near the opening price.

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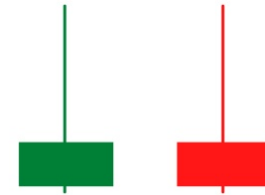


Inverted Hammer / Shooting Star

The Inverted Hammer and Shooting Star look exactly alike, but have different implications based on previous price action. These candlesticks mark potential trend reversals, but require confirmation before action.

The Shooting Star is a bearish reversal pattern that forms after an uptrend. A Shooting Star can mark a potential trend reversal or resistance level. The resulting candlestick has a long upper wick and small red or green body. After a large advance (the upper wick), the ability of the bears to force prices down raises the yellow flag. To indicate a substantial reversal, the upper wick should be relatively long and at least 2 times the length of the body. Bearish confirmation is required after the Shooting Star and can take the form of a long red candlestick on heavy volume.

The Inverted Hammer looks exactly like a Shooting Star, but forms after a decline or downtrend. Inverted Hammers represent a potential trend reversal or support levels. After a decline, the long upper wick indicates buying pressure during the session. However, the bulls were not able to sustain this buying pressure and prices closed well off their highs to create the long upper wick. Because of this failure, bullish confirmation is required before action. An Inverted Hammer followed by a move up or long green candlestick with heavy volume could act as bullish confirmation.



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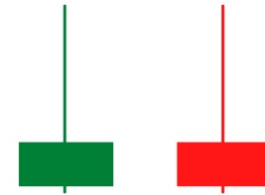
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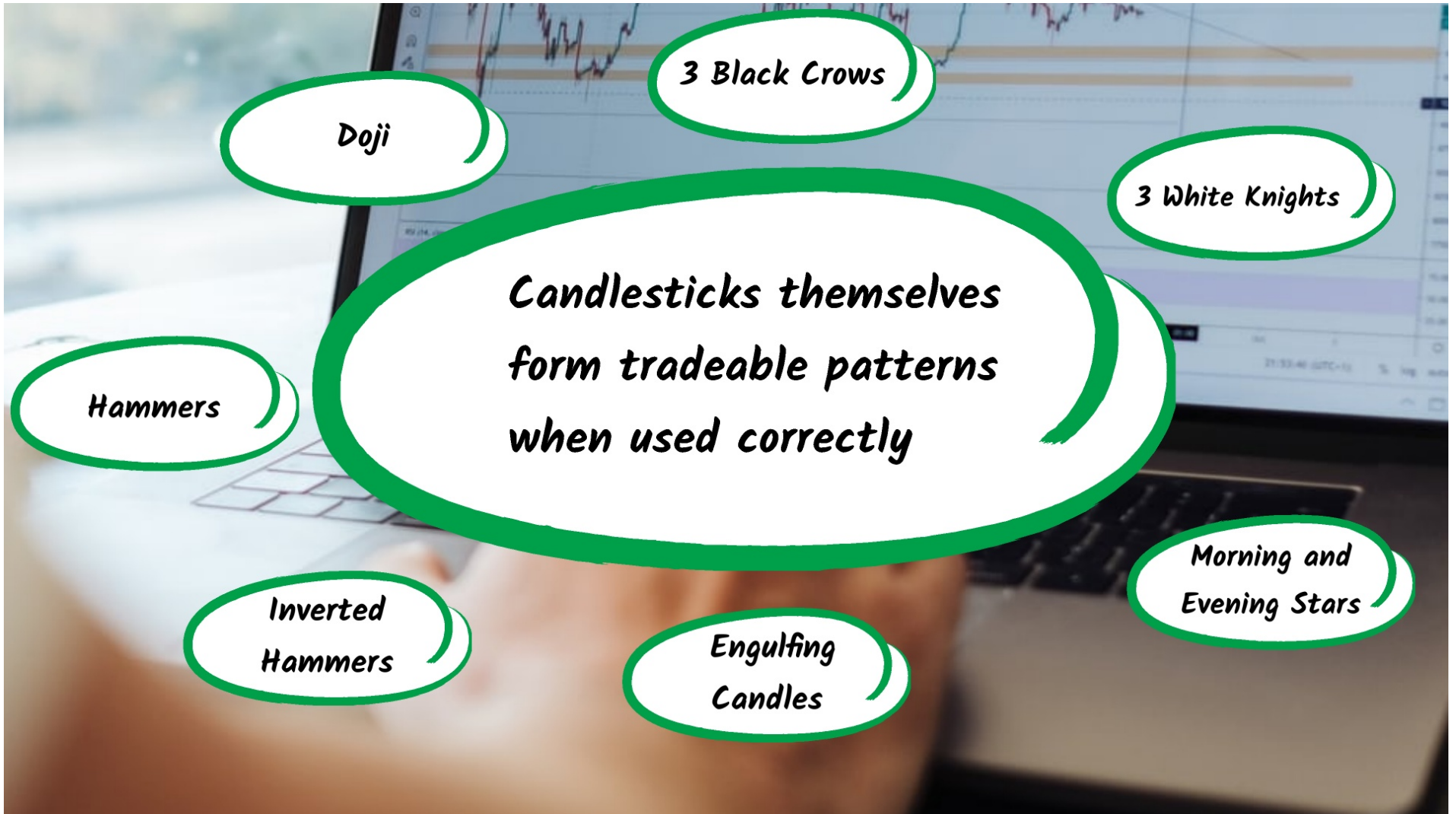
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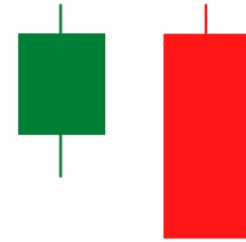


Engulfing Candles

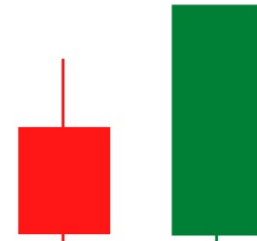
This pattern is where a small candlestick is followed by a larger opposite candlestick that fully engulfs the first one.



We see that the buyers are buying and driving the price up for some time. Then at the peak, a large red (black) candlestick engulfs the small green (white) candlestick signaling a trend reversal. This is a strong signal because it tells us that the sellers are overpowering the buyers—and by a lot since it completely engulfs the previous candle.



Bearish Engulfing

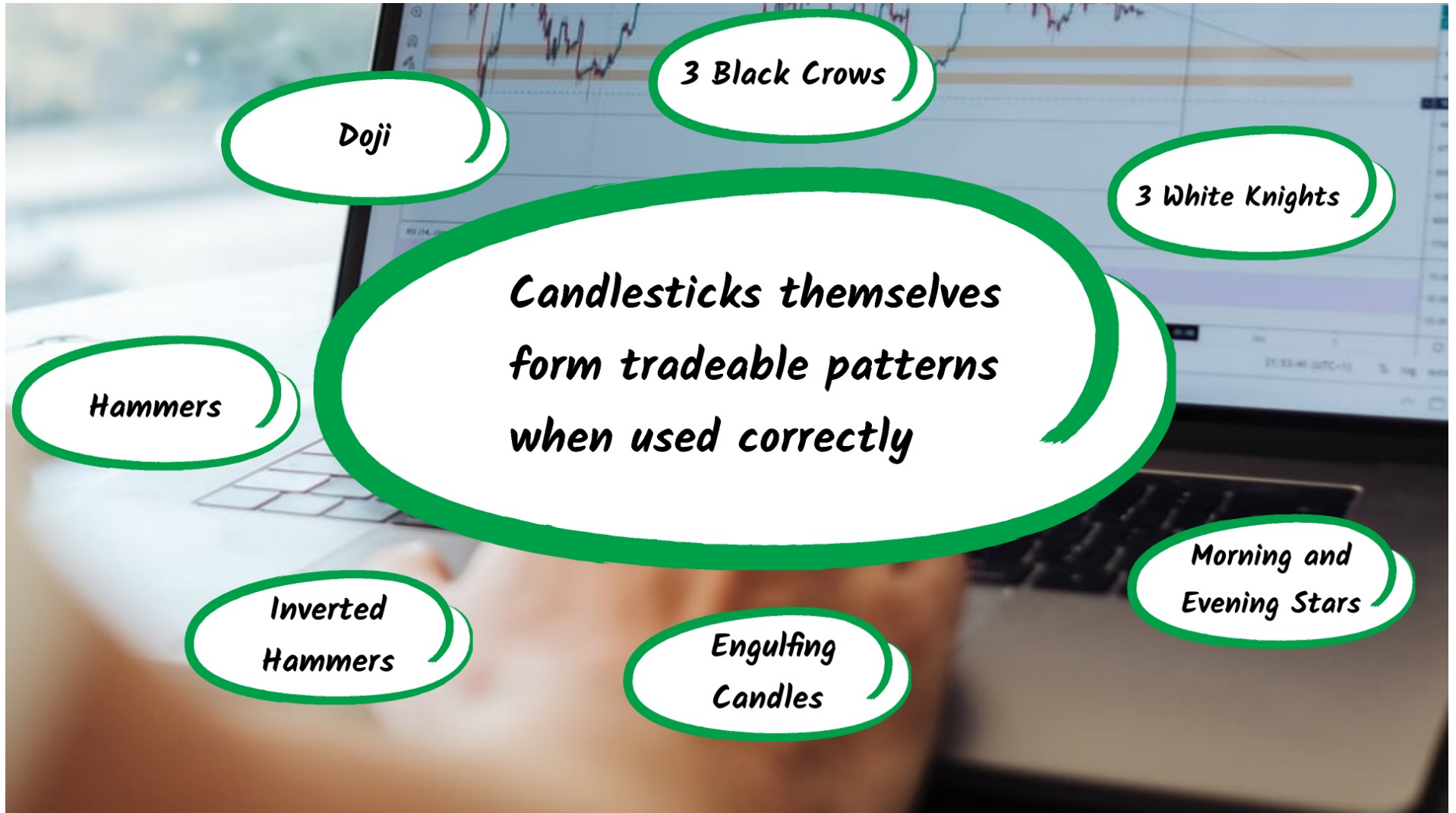


Bullish Engulfing

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We see that the buyers are buying and driving the price up for some time. Then at the peak, a large red (black) candlestick engulfs the small green (white) candlestick signaling a trend reversal. This is a strong signal because it tells us that the sellers are overpowering the buyers- and by a lot since it completely engulfs the previous candle.



Morning and Evening Star

Even star is a strong bearish reversal pattern that you will usually find at the top of an uptrend.

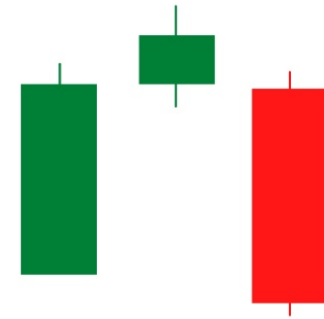
This Candle pattern consists of:

- Large bullish candle
- A smaller bullish or bearish candle and in some cases a Doji
- Large bearish engulfing candle

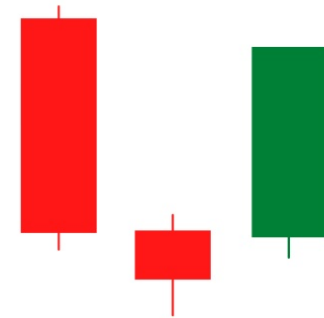
Also, do not get caught up on searching for a doji that has an exact match with the opening and closing price. It could also have a small body with similar opening and closing prices. The point is to have the knowledge of being able to identify the pattern for market entry.



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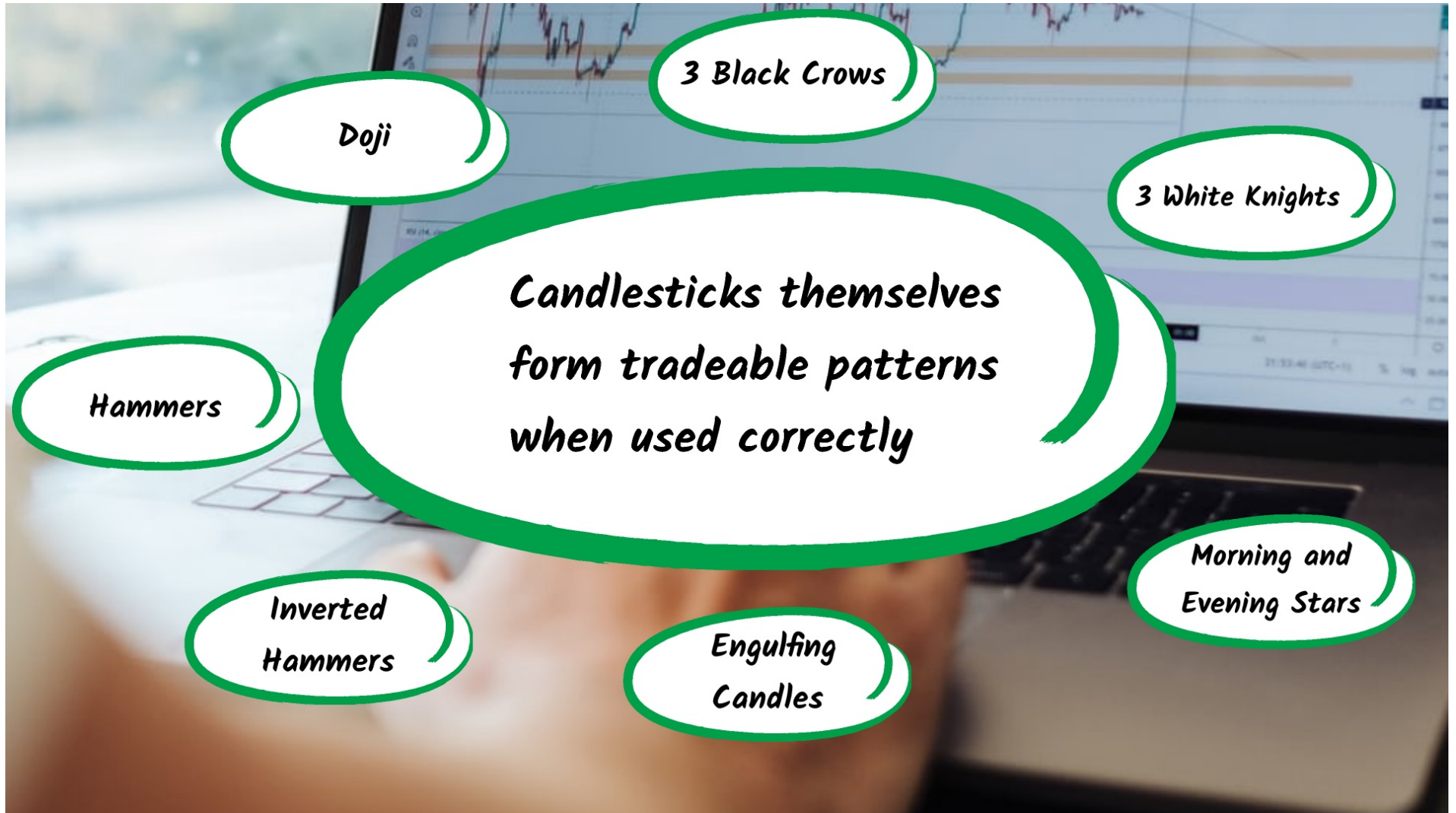


Evening Star



Morning Star





Three Black Crows

The Three Black Crows pattern is a bearish reversal pattern that consists of three bearish candlesticks.

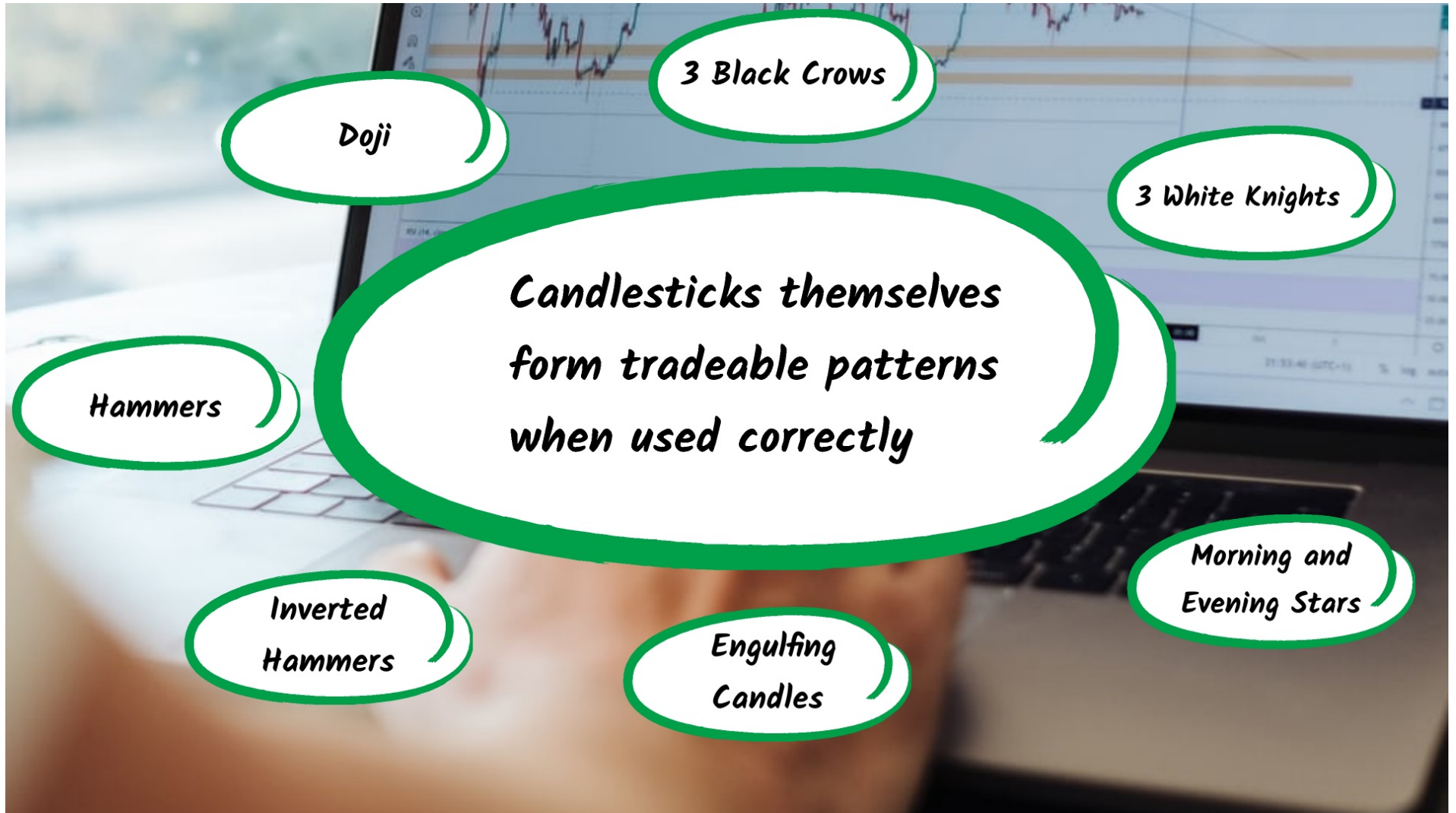
This is a moderate trend reversal pattern that should only come into consideration when it appears in a rally or an established uptrend.

The Three Black Crows usually indicates a weakness in an established uptrend and the potential an impending down trend.

Each of the three candlesticks in the Three Black Crows pattern should be relatively long bearish candlesticks







Three White Knights

The White knights pattern is the opposite of the Three Black Crows pattern.

It is called the Three White knights pattern because it consists of three relatively long bullish candlesticks and are a play of the "knight in shining Armour".

Each candlestick should **not** have long upper wicks and should preferably open within the real body of the preceding candle.

When this pattern appears in a downtrend, it indicates the potential emergence of strength and a possible trend reversal. However, if the three candlesticks are over extended and make significant advances you may need to be wary of overbought conditions.





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